

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 NEA-10 IO-13 H-02 L-03 PA-01

PRS-01 SP-02 USIA-06 AID-05 EB-07 NSC-05 CIEP-01

SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 /105 W

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 7082

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USADB

PASS TREASURY FOR ZINMAN

E. O. 11652: ADS, DECLAS 12/31/76

TAGS: EAID, EFIN

SUBJECT: ADB LENDING RATE

REF: MANILA 9744

1. AT JULY 6 INFORMAL MEETING OF DIRECTORS AND ALTERNATES FROM DEVELOPED MEMBER COUNTRIES, ADB PRESIDENT REQUESTED PERSONAL VIEWS ON PROPOSAL NOT REPEAT NOT TO CHANGE ADB LENDING RATE UNLESS WORLD BANK RATE CHANGES BY MORE THAN 10 BASIS POINTS. AT CLOSE OF MEETING ADB PRESIDENT SAID THAT BANK DOCUMENT ON ADB LENDING RATE WILL INCLUDE PROPOSAL TO MAINTAIN ADB LENDING RATE TO 31 DECEMBER 1976 FROM 8 JUNE EVEN THOUGH THERE MAY BE CHANGE IN WORLD BANK QUARTERLY RATE ON 1 OCTOBER 1976, UNLESS CHANE IN WORLD BANK RATE IS MORE THAN 10 BASIS POINTS, WITH UNDERSTANDING THAT ADB WILL REVIEW LENDING RATE IN JANUARY AFTER ANNOUNCEMENT OF WORLD BANK RATE ON 1 JANUARY 1977. IF WORLD BANK RATE CHANGES BY MORE THAN 10 BASIS POINTS ON 1 OCTOBER 1976, ADB WILL REVIEW ITS

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LENDING RATE IN OCTOBER TO DETERMINE NEW RATE TO BE

EFFECTIVE 1 NOVEMBER. ADB VICE PRESIDENT EXPLAINED THAT REASONS FOR PROPOSAL WERE (A) TO REDUCE WORKLOAD OF BANK STAFF AND BOARD DURING "BUNCHING" SEASON IN OCTOBER-NOVEMBER, (B) TO AVOID HARMFUL TIME-CONSUMING ADJUSTMENTS AND DISCUSSIONS ASSOCIATED WITH RATE CHANGES DURING LOAN NEGOTIATIONS IN BUNCHING SEASON, AND (C) TO AVOID AUTOMATIC CHANGES IN ADB LENDING RATE DUE ONLY TO CHANGES IN WORLD BANK RATE AND NOT DUE TO ANY CHANGE IN INTERNAL FINANCIAL POSITION OF ADB.

2. ADB TREASURER SAID THAT ADOPTION OF 10 BASIS POINTS RULE OR 20 BASIS POINTS BOND AROUND ADB LENDING RATE WOULD NOT ADVERSELY AFFECT FINANCIAL POSITION OF ADB IN INTERNATIONAL CAPITAL MARKETS IF BOND ANALYSIS UNDERSTOOD IT TO BE BANK FORMULA.

3. IN RESPONSE TO WHETHER U.S. WOULD BE ABLE TO CONSIDER THIS PROPOSAL IN SHORTER TIME THAN USUAL THREE WEEK PERIOD, U.S. ALTERNATE DIRECTOR OBSERVED THAT DETERMINATION OF ADB LENDING RATE POLICY SHOULD NOT BE INFLUENCED BY MEASURES TO AVOID ADDITIONAL WORK DURING THIS "BUNCHING" SEASON BUT BY FOCUSING ON METHODS TO DETERMINE ADB LENDING RATE WHEN WORLD BANK MAKES QUARTERLY CHANGES. THIS COULD BE ACHIEVED BY ADOPTING SOME FORM OF SEMI-AUTOMATIC COST FORMULA. PROPOSED 20 BASIS POINT BOUND AROUND ADB LENDING RATE WOULD PREVENT ADB FROM MAKING SMALL LENDING RATE ADJUSTMENTS THAT COULD REMOVE USUAL BOARD RESISTANCE TO RATE CHANGES OVER TIME. SINCE WORLD BANK MINIMUM RATE CHANGE IS UNDERSTOOD TO BE 5 BASIS POINTS, MINIMUM CHANGE IN ADB LENDING RATE UNDER PROPOSAL WOULD BE 15 BASIS POINTS. IN CONSEQUENCE U.S. ALTERNATE DIRECTOR SAID U.S. WOULD PREFER USUAL TIME PERIOD OF THREE WEEKS TO CONSIDER THIS PROPOSAL TOGETHER WITH ADB LENDING RATE PROPOSAL.

4. U.S. DIRECTOR SAID HE SYMPATHIZED WITH RESISTANCE OF SOME DIRECTORS TO IMPLICATION THAT AUTOMATIC RATE CHANGES BY ADB WOULD BE DUE SIMPLY TO WORLD BANK RATE CHANGES WITHOUT CONSIDERATION OF ADB FINANCIAL POSITION. IN CONSIDERATION OF THIS VIEW AND NECESSITY TO FOLLOW MARKET RATE CHANGES, U.S. DIRECTOR SAID THAT AS AN ALTERNATIVE HE WOULD LIMITED OFFICIAL USE

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SUPPORT ONE MONTH PERIOD AFTER A CHANGE IN WORLD BANK RATE TO ALLOW CONSIDERATION OF AMOUNT OF CHANGE IN ADB LENDING RATE.

5. THERE APPEARED TO BE SUFFICIENT SUPPORT FOR ADB PRESIDENT'S PROPOSAL TO BE INCLUDED IN BANK DOCUMENT ON ADB LENDING RATE WHICH IS SCHEDULED FOR DISTRIBUTION BY 9 JULY 1976.

6. ONE OTHER ISSUE WAS RETROACTIVITY. SOME DIRECTORS FELT THAT BOARD SHOULD AGREE ON POLICY NOT TO APPLY ADB LENDING RATE RETROACTIVELY IN FUTURE. NEW ZEALAND ALTERNATE DIRECTOR SAID THAT AS GENERAL RULE SETTING RATES TO BE EFFECTIVE RETROACTIVELY SHOULD BE AVOIDED BUT POINTED OUT THAT IF BOARD IS UNABLE TO ESTABLISH RATE ONE MONTH AFTER CHANGE IN WORLD BANK RATE, BOARD MAY WISH TO APPROVE RATE RETROACTIVELY TO PREVENT INDIVIDUAL DIRECTORS FROM DELAYING IMPOSITION O NEW LENDING RATE BY EXERCISING RIGHT OF POSTPONEMENT. SINCE THERE APPEARED TO BE INSUFFICIENT SUPPORT FOR POLICY ON RETROACTIVITY OF LENDING RATES, ADB PRESIDENT SAID THIS PROPOSAL WOULD NOT BE INCLUDED IN PROPOSED DOCUMENT ON ADB LENDING RATE.
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